

# KENTUCKY ECONOMIC INDICATORS

December 2004 Indicators as of February 28, 2005

## **KY Composite Index of Leading Indicators increased 2.3 percent for December.**

- The Leading Index increased for the ninth time in the last 12 months.
- The Leading Index rose by 0.9 percent over the same month last year.
- Component indicators leaned positive, gainers over losers 3:2.
  - KY Labor Intensity Index decreased 1.6 percent.
  - + The US Leading Index increased 4.2 percent.
  - + The Index of KY Initial Claims increased 8.7 percent.
  - + US Retail Sales increased 14.4 percent.
  - The Louisville Help Wanted Index decreased by 1 point to 41.

*Component weights for December are 49.62, 23.55, 14.77, 10.37 and 1.69 respectively.*

## **KY Composite Index of Coincident Indicators increased 17.5 percent for December.**

- The Coincident Index increased for the third consecutive month.
- Same-month-last-year growth is positive for the seventeenth consecutive month at 3.3 percent.
- Component indicators were strongly positive, gainers over losers 2:1.
  - KY Total Nonagricultural Employment decreased 0.1 percent.
  - + US Industrial Production Index increased 8.6 percent.
  - + US Personal Income Less Transfers increased 64.5 percent.

*Component weights for December are 32.19, 29.53 and 27.55 respectively. Component weights do not sum to one because the two US components were discounted to allow the Kentucky component more weight.*

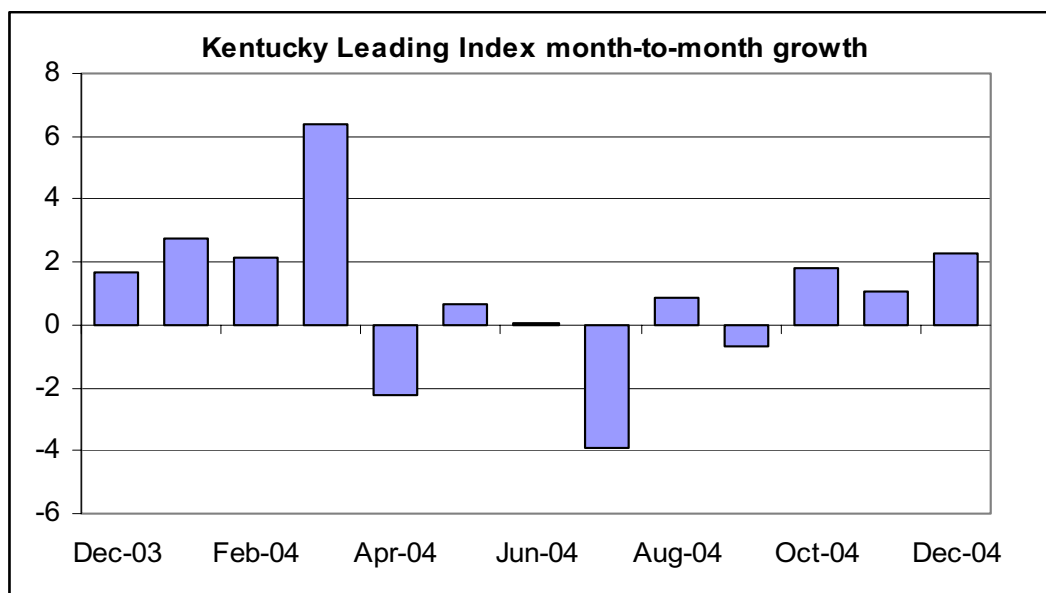
The Kentucky Leading Index was positive for the third consecutive month. Gains in the US Leading Index, the Index of KY Initial Claims and US Retail Sales were responsible for the increase for December. This is the second consecutive month of growth for the US Leading Index. This is especially favorable considering that the preceding five consecutive months ending in October were all negative. All of the national indicators are favorable for December. This is a strong sign that the national economy is rebounding again.

The Index of KY Initial Claims is composed of two components, KY First Pays and US Total Initial Claims. Both components improved for December, with the US component the stronger of the two. Kentucky First Pays, once seasonally adjusted, have followed a clear downward trend since the beginning of 2003. US Initial Claims follow a similar downward pattern since 2003. US Initial Claims have decreased by a net 24.7 percent since its recent peak in April 2003. The number of exhaustees over that period (that is, the number of individuals in their final payment of Unemployment Insurance) is slightly declining or shows no pattern, depending on how you measure the trend line. With that in mind, it is clear that the unemployment situation in Kentucky has been improving over the last two years.

US Retail Sales began to steeply climb during 2003, then tapered off in the beginning of 2004. From March to September 2004, US Retail Sales were very erratic, bouncing up and down every single month. Then for the last calendar quarter of 2004 retail sales started to rise more rapidly again.

Manufacturing Employment declined for the sixth time in 2004. Kentucky Manufacturing Employment growth continues to be sluggish or even receding. The Manufacturing sector in Kentucky lost a net 4,100 jobs in 2004. The KY Labor Intensity Index is made up of five manufacturing subsectors, Chemical Products, Fabricated Metals, Lumber and Wood Products, Rubber and Plastic Products and Transportation Products. These five subsectors seem to be structurally different from the rest of the Manufacturing class products. Most months, when Manufacturing Employment experiences a net decline, the KY Labor Intensity Index employment subsectors are generally positive. However, in December this was not the case, as the Index fell for the seventh time of the year with a 1.6 percent decline.

Our indices are compiled and published on a monthly basis, roughly two weeks following the Conference Board release of the U.S. Leading Index. A complete description of the Index of Leading Indicators and methodology was published in the *University of Kentucky Center for Business and Economic Research Kentucky Annual Economic Report, 2000*.



### About the Indicators

#### **Kentucky Reference Series**

Inflation-adjusted personal income less transfer payments and policy-adjusted general fund tax receipts are combined to form the GOEA composite reference series.

#### **Kentucky Leading Indicators**

- **GOEA Labor Intensity Index:** Composed of seasonally adjusted weekly hours multiplied by employment for the following manufacturing industries: Lumber products, chemical and allied products, rubber and plastic products, fabricated metals, and transportation equipment.
- **GOEA Initial Unemployment Insurance (UI) Claims Index:** This index has two components: Kentucky UI claims in their first month of payment and total U.S. initial claims. Additional claims for UI are the subset of initial claims filed by workers who have previously filed UI claims but are currently filing new claims with intermittent workforce attachment since their original claim. The claims in their first month of payment without intermittent qualified experience performed better in the testing process and were chosen accordingly.
- **Louisville Help-wanted Index:** The Conference Board computes an index of help-wanted advertisements for major regions across the United States; Louisville is the only city in Kentucky covered by the Conference Board.
- **U.S. Manufacturing and Trade Sales:** This series outperformed Kentucky sales tax receipts and U.S. total retail sales. Current manufacturing and trade sales help form the basis for business expectations for the immediate short run. Since production and investment do not occur instantaneously, the formation of expectations (manifested through current manufacturing and trade sales) should slightly lead the business cycle.
- **GOEA U.S. Leading Index:** We eliminated two variables, UI Claims and weekly hours, from the U.S. leading index since we already use the Kentucky equivalents. The remaining eight components of the U.S. leading index were tested, eliminating both the interest rate spread and the slower deliveries diffusion index of vendor performance. The remaining six components were then re-indexed by GOEA.

#### **Table Notes:**

- 1) Growth rates are computed with precise numbers. Due to rounding, two observations may have the same reported value but still exhibit growth at a more precise level.
- 2) More information is available on our website, [www.osbd.ky.gov](http://www.osbd.ky.gov)

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**SELECTED KENTUCKY ECONOMIC INDICATORS  
SEASONALLY ADJUSTED**

	2004													
	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	
KY Leading Index (1992=100)	112.1	112.4	112.6	113.2	113.0	113.0	113.1	112.7	112.8	112.7	112.9	113.0	113.2	
	1.7	2.8	2.1	6.4	-2.2	0.7	0.1	-3.9	0.9	-0.7	1.8	1.1	2.3	
	1.4	1.5	1.9	2.7	2.6	2.5	2.3	1.4	1.3	0.6	1.1	0.9	0.9	
KY Coincident Index (1992=100)	129.2	129.4	129.7	129.7	130.0	130.4	130.3	131.0	130.9	130.7	131.4	131.6	133.4	
	0.9	2.1	3.2	-0.6	3.7	3.3	-0.6	5.9	-0.1	-2.5	7.1	1.4	17.5	
	1.5	1.6	1.9	1.9	2.5	2.5	2.3	2.7	2.6	2.0	2.4	2.0	3.3	
KY Nonag Employment (000s)	1,785.7	1,793.4	1,788.2	1,788.1	1,788.1	1,788.4	1,792.0	1,800.7	1,797.1	1,792.0	1,799.8	1,800.4	1,800.2	
	-0.5	5.3	-3.4	-0.1	0.0	0.2	2.4	6.0	-2.4	-3.4	5.4	0.4	-0.1	
	-0.2	0.4	0.4	0.3	0.4	0.4	0.7	1.4	1.0	0.5	0.8	0.8	0.8	
KY Mfg Employment (000s)	266.1	266.9	265.8	265.8	264.1	264.5	264.5	259.0	262.9	263.6	263.3	262.7	262.0	
	1.4	3.7	-4.8	0.0	-7.4	1.8	0.0	-22.3	19.6	3.2	-1.4	-2.7	-3.2	
	-1.5	-1.0	-1.2	-0.6	-0.7	-0.4	-0.3	-2.2	-0.9	-0.6	-1.1	-1.2	-1.5	
KY Unemployment Rate (%)	6.0	5.3	5.3	5.5	5.4	5.4	5.5	5.3	5.1	4.7	4.8	4.5	4.5	
	101.4	101.8	101.4	102.4	102.3	102.4	102.6	101.7	101.9	102.4	102.8	102.4	103.1	
KY Index of Initial UI Claims	0.9	4.6	-3.8	12.2	-1.3	1.4	2.8	-10.1	2.4	5.4	5.7	-5.2	8.7	
	2.6	1.8	1.7	3.5	3.6	3.2	3.4	1.8	1.7	2.3	1.9	1.1	1.7	
	104.3	104.8	104.7	104.6	104.7	104.5	104.4	104.3	104.4	104.5	104.5	104.6	104.4	
KY Labor Intensity Index (1992=100)	-3.6	5.2	-0.8	-0.9	1.1	-2.5	-0.8	-1.6	1.5	1.1	-0.1	1.0	-1.6	
	-0.6	0.1	0.2	0.7	0.7	0.4	0.4	0.0	0.1	0.1	0.1	-0.1	0.1	
	57.0	50.0	55.0	56.0	51.0	48.0	51.0	45.0	47.0	40.0	41.0	42.0	41.0	
Louisville HWI (1992=100)	514.0	-79.2	213.8	24.1	-67.4	-51.7	107.0	-77.7	68.5	-85.6	34.5	33.5	-25.1	
	7.5	-9.1	-8.3	-3.4	2.0	2.1	4.1	-10.0	0.0	-45.2	-18.0	-14.3	-28.1	
	676.1	583.1	462.6	509.3	721.1	479.5	633.7	519.1	513.4	655.0	563.6	587.9	709.7	
GF Total Tax Receipts (\$mil)	5.3	-8.2	10.2	16.3	3.5	15.1	2.6	10.2	11.7	4.1	6.3	10.7	5.0	
	207.9	249.5	164.0	185.0	217.5	205.6	199.7	226.1	211.7	206.6	224.0	201.1	217.7	
	8.0	6.9	8.9	11.7	8.9	8.1	4.2	8.6	7.3	3.1	5.0	1.0	4.7	
GF Sales & Use Receipts (\$mil)	247.6	207.2	217.3	142.0	366.6	189.6	270.2	224.2	245.2	272.2	249.9	230.2	259.0	
	8.6	-28.8	6.1	21.4	3.4	19.8	0.8	8.5	9.4	-0.3	9.5	2.8	4.6	

# SELECTED U.S. ECONOMIC INDICATORS SEASONALLY ADJUSTED

	2003	2004											
	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
US Leading Index (1982=100)	114.3	114.7	114.8	115.7	115.8	116.3	116.2	116.0	115.7	115.4	115.1	115.5	115.9
% Chg Previous Month SAAR	3.2	4.3	1.1	9.8	1.0	5.3	-1.0	-2.0	-3.1	-3.1	-3.1	4.3	4.2
% Chg Same Month Last Year	3.0	3.4	3.9	4.7	4.6	4.2	3.8	2.9	2.3	1.9	1.2	1.3	1.4
US Coincident Index (1992=100)	115.7	115.8	116.1	116.6	116.9	117.2	117.2	117.5	117.7	117.7	118.2	118.3	119.6
% Chg Previous Month SAAR	2.1	1.0	3.2	5.3	3.1	3.1	0.0	3.1	2.1	0.0	5.2	1.0	14.0
% Chg Same Month Last Year	1.6	1.5	2.0	2.5	2.8	2.8	2.5	2.5	2.8	2.5	2.7	2.4	3.4
US Nonag Employment (mil)	130.3	130.4	130.5	130.8	131.1	131.4	131.5	131.6	131.8	131.9	132.2	132.3	132.4
% Chg Previous Month SAAR	0.8	1.1	0.9	3.0	3.1	2.3	1.0	0.8	1.7	1.2	2.6	1.2	1.2
% Chg Same Month Last Year	0.1	0.1	0.3	0.7	1.0	1.2	1.3	1.3	1.5	1.5	1.6	1.6	1.7
US Unemployment Rate (%)	5.7	5.7	5.6	5.7	5.5	5.6	5.6	5.5	5.4	5.4	5.5	5.4	5.4
US Initial Claims for UI (000s)	362.5	355.3	355.5	340.4	343.6	341.3	336.0	343.6	342.4	349.1	341.6	336.6	331.2
% Chg Previous Month SAAR	-18.4	-21.4	0.7	-40.6	11.9	-7.7	-17.1	30.8	-4.1	26.2	-22.9	-16.2	-17.6
% Chg Same Month Last Year	-13.1	-10.1	-13.4	-19.0	-21.0	-19.4	-19.8	-14.0	-14.5	-12.6	-10.6	-8.7	-8.6
US Industrial Production Index	112.9	113.2	114.4	114.1	114.7	115.5	115.1	115.9	116.0	115.7	116.6	116.8	117.6
% Chg Previous Month SAAR	2.5	3.6	13.5	-3.3	6.8	8.7	-4.2	8.8	1.1	-3.3	10.1	1.8	8.6
% Chg Same Month Last Year	2.0	2.1	3.1	3.2	4.7	5.4	4.7	4.8	5.0	3.9	4.6	3.7	4.2
US Personal Inc. Less Trans. (bil 92\$)	7,550.6	7,537.5	7,549.0	7,558.0	7,596.9	7,614.5	7,612.0	7,643.1	7,651.6	7,642.3	7,695.9	7,712.9	8,039.6
% Chg Previous Month SAAR	1.2	-2.1	1.8	1.4	6.4	2.8	-0.4	5.0	1.3	-1.4	8.7	2.7	64.5
% Chg Same Month Last Year	3.4	3.1	3.1	3.2	3.4	3.0	2.7	2.9	2.9	2.6	2.8	2.3	6.5
CPI, All Urban (1982-84=100)	185.0	185.9	186.5	187.3	187.7	188.8	189.3	189.2	189.3	189.6	190.7	191.2	191.2
% Chg Previous Month SAAR	2.6	6.0	3.9	5.3	2.6	7.3	3.2	-0.6	0.6	1.9	7.2	3.2	0.0
% Chg Same Month Last Year	1.9	2.0	1.7	1.7	2.3	3.0	3.2	2.9	2.7	2.5	3.2	3.6	3.4
US Retail Sales (bil 84\$)	320.9	324.4	327.0	333.8	331.1	335.9	333.5	336.9	336.1	341.5	345.0	344.9	348.8
% Chg Previous Month SAAR	-3.8	13.8	10.0	28.1	-9.2	18.8	-8.2	12.9	-3.1	21.1	13.3	-0.5	14.4
% Chg Same Month Last Year	5.9	6.5	8.5	8.6	7.5	9.3	6.8	6.9	4.7	7.7	8.8	7.1	8.7
Manufacturing & Trade Sales (000s)	895.2	894.4	898.8	921.9	916.1	916.9	920.2	925.4	928.7	930.5	931.2	933.0	*934.4
% Chg Previous Month SAAR	9.4	-1.0	6.1	35.6	-7.4	1.1	4.4	7.0	4.4	2.3	0.8	2.4	1.8
% Chg Same Month Last Year	5.4	4.7	7.2	8.8	8.0	7.5	6.4	5.5	6.4	5.9	5.5	5.0	4.4
US Consumer Expectations (1966=100)	89.8	100.1	88.5	88.8	87.3	81.6	88.5	91.2	88.2	88.0	83.8	85.2	90.9
% Chg Previous Month AR	25.8	268.0	-77.2	4.1	-18.5	-55.5	164.9	43.4	-33.1	-2.7	-44.4	22.0	117.5
% Chg Same Month Last Year	11.1	37.5	26.6	27.6	10.1	-10.7	2.4	9.0	6.9	8.9	1.0	-3.3	1.2
Ave. Prime Interest Rate (% NSA)	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.25	4.42	4.58	4.75	4.93	5.14

\* ARIMA estimation